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FAR EAST/PACIFIC BRANCH  
OFFICE OF REPORTS AND ESTIMATES  
CENTRAL INTELLIGENCE AGENCY

WORKING PAPER

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OFFICE OF REPORTS AND ESTIMATES, CIA  
FAR EAST/PACIFIC BRANCH

INTELLIGENCE HIGHLIGHTS NO. 31  
~~WEEK OF 8 DECEMBER - 14 DECEMBER 1948~~

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SECTION I. SUMMARY OF FAR EAST TRENDS AND DEVELOPMENTS

The fourth session of ECAFE has been exploited again by the Soviets in an attempt to alienate Far Eastern countries from the US (page 3).

US and UN requests for temporary sanctuary for stateless European refugees from China are meeting with little success (page 3).

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25X6A [redacted] and Siam are considering an anti-communist program for Southeast Asia (page 4).

[redacted]

A possible struggle for political power among rightist groups may weaken the Republic of Korea (page 6). North Korean invasion rumors increase psychological pressure on South Korea (page 6).

In China the battle in the Kuochou-Pangfou area is entering its final phase with the Nationalist forces facing complete defeat (page 7). In the near future Chiang Kai-shek may seek refuge in flight, retire or be forced from power by a coup, although Vice President Li Tsung-jen would prefer to succeed to power constitutionally, without resort to force (page 8). Nationalists in North China are attempting to setup an autonomous regime (page 8). Manchuria may be accorded a special status by the Communists, separate from China proper (page 8). Admiral Badger's recent statement regarding the landing of marines in Shanghai may have unfortunate consequences for US interests (page 10).

The Republic of Indonesia is attempting to muster external and internal support for resistance against the Dutch (page 11).

In succeeding sections of this Weekly, the following marginal notation is used:

- (1) "A", "B", or "C" --importance in B/FE's opinion, of the item, with "A" representing the most important ones.

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SUMMARY (continued)

In Burma, Karen-Burman animosity is being fanned by insinuations in the Burmese press that British and possibly American, are clandestinely arming the Karens (page 11).

In Malaya, small bands of terrorists are reported to have begun slashing rubber trees (page 12).

25X6A In the Philippines the government claims that it has broken dissident assistance in Central Luzon (page 12).



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## SECTION II. DEVELOPMENTS IN SPECIFIED AREAS

GENERALSoviets again seek to embarrass US in ECAFE session

"B"

The fourth session of UN Economic Commission for Asia and the Far East, which adjourned 11 December to reconvene in Singapore next fall, has again been exploited by the Soviets in an attempt to alienate Far Eastern countries from the US. The Soviet strategy was clearly indicated by the Soviet delegation's consistent support of the request that the Indonesian Republic's delegation be seated and by Soviet attacks on the industrial development and economic survey reports as imperialist attempts to prolong domination of Asia. Soviet stress on industrial development of the area may have been indirect encouragement to Far Eastern countries to seek a Marshall Plan for Asia. A proposal for such an aid plan was again rejected by the US.

Despite Soviet ability to capitalize on differences in viewpoint between the East and West, the conference finale provided a propaganda defeat for the USSR when an amendment to a resolution on the import of capital, implying that the US imposed political and military conditions for aid, was soundly defeated in the plenary session of 11 December. Nevertheless, US refusal to consider financial commitments for Asian rehabilitation and US support of the Dutch in opposing the seating of the Indonesian Republic's delegation will probably continue to be vulnerable points of attack in the Far East. A Saigon press editorial has already hailed ECAFE's admission of the Republican delegation as an important step in the fight of subject peoples for independence. The editorial, noting US-Dutch opposition, emphasized that the US block had been broken up and that ECAFE's 8 - 2 vote to seat the Republic's delegation represented the union of East vs. West.

Stateless refugees in China constitute serious problem

"A-B"

A US attempt, in cooperation with the International Refugee Organization (IRO), to facilitate the evacuation from Shanghai of 15,000 stateless European refugees, is meeting limited success. The requests for temporary sanctuary are being received with mixed reaction by Far Eastern governments. Despite an IRO commitment to provide interim care and maintenance of evacuees pending permanent resettlement, several governments are reluctant, by reason of food and housing shortages, as well as political considerations, to offer temporary refuge. The refugees are 8,000 White Russians, limited numbers of Balts and Poles and 5,000 Jews, who have been offered Israeli visas.

Although the Siamese have not yet issued an official statement, the Premier recently expressed his personal opinion in the press that Siam is not

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GENERAL (continued)

ready to receive refugees. The Siamese especially fear the probable establishment of a precedent which would be used by China to gain admission to Siam for several thousand Chinese. President Quirino reportedly has indicated that the Philippines will offer refuge to nationals of friendly countries; this includes China, but it is probable that Chinese refugees will be limited to



The White Russian, Baltic and Polish groups are in particular danger since unless their evacuation is accomplished, they may face forcible repatriation to former European homelands. Such a development might well constitute a serious blow to the prestige of the US and the UN particularly among peoples in Soviet-controlled areas.

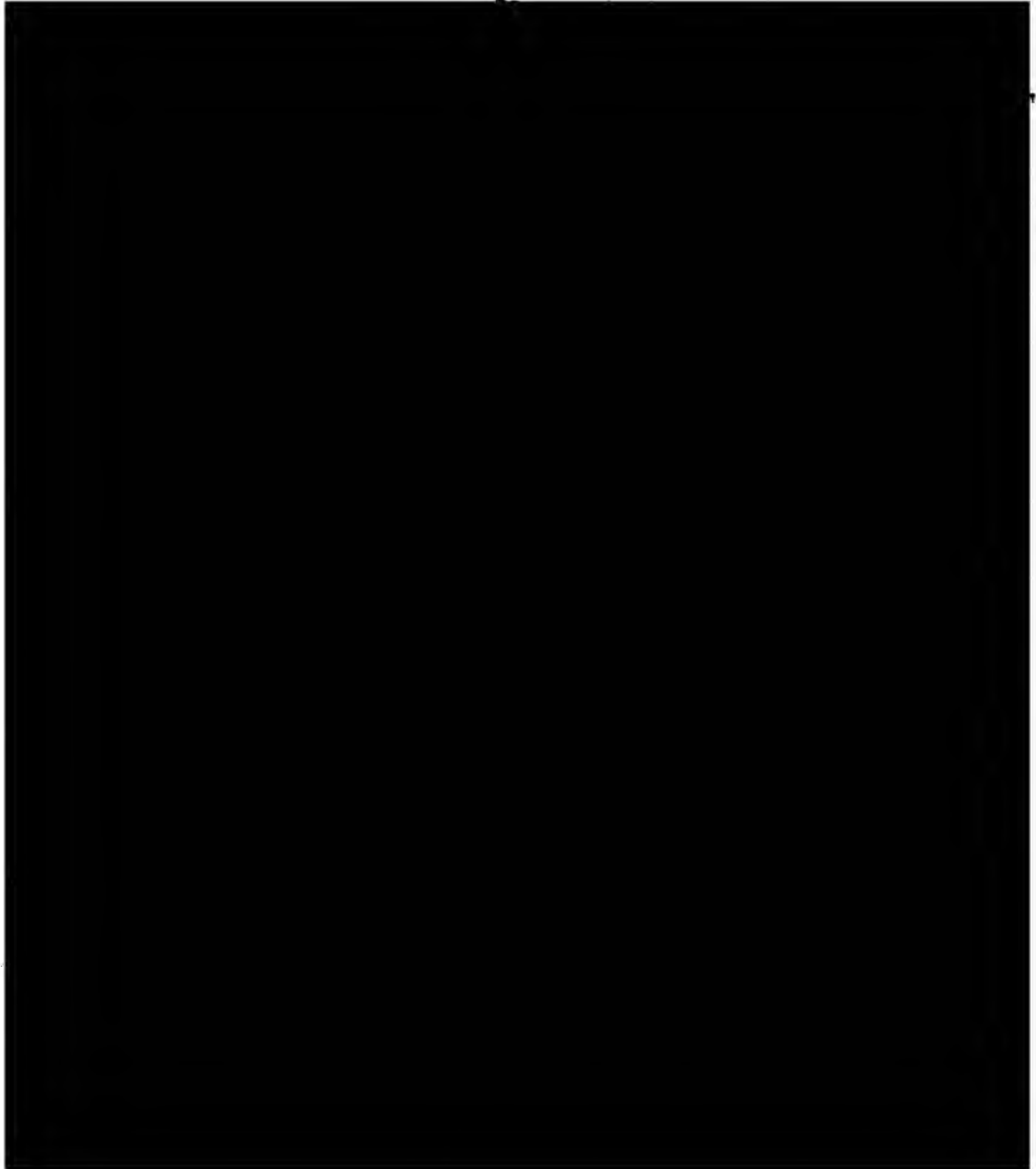
Siam consider anti-communist program for Southeast Asia "B"

Apprehension over the possible spread of communism as a result of Chinese communist domination of China is leading [redacted] together with Siam, to effect a common means of combatting communist activities in Southeast Asia. Although a formal SEA defense bloc is not envisaged, preliminary discussions and participating action by France and Britain reportedly have been initiated. [redacted] have approached Siam for increased cooperation in controlling Indochinese and Malayan dissidents who operate from and find refuge in Siamese border provinces. [redacted] and Siam agree on joint anti-communist measures, it is possible that the exclusion of other SEA states in the consideration of this problem may result in increased antipathy in SEA for Western influence and domination.

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KOREA

President Rhee may be forced to reorganize his government. The favorable UN decision on the legal status of the Republic of Korea may precipitate a power struggle between rightist elements of the National Assembly and President Rhee, suspended during the fall in order to present a facade of governmental strength and unity pending UN recognition of the government. The powerful Hankook Democratic Party and other Assembly factions, motivated by sincere desires to raise the caliber of Cabinet officials and by desires for self-aggrandisement, have plans to reduce the powerful executive to a figure-head by establishing a responsible cabinet and Prime Minister through constitutional amendment. Due, however, to the inability of the various political factions to agree on leadership and a division of spoils, Rhee should be able to maintain his present powers by effecting minor changes in his government and by the judicious award of favors to key members of the rightist opposition.

"B"

Reforms that reduced the broad executive powers now exercised autocratically by Rhee and reforms that raised the caliber of government personnel would increase the strength of the government in the long run. But an acute political struggle at this time within the various rightist factions would seriously impair the ability of the government to cope with internal and external communist threats to its existence.

It is still considered likely that the North Korean Communists will attempt a coup before resorting to an armed invasion of South Korea. (See B/FE 20-26 Oct.) However, the North Koreans have the capability of invasion and an increasing volume of invasion reports supports the belief that a North Korean People's Army (PA) consolidation is occurring near the 38th parallel. It is to be noted that the North Koreans will probably consider the 30 day period prior to the arrival of the new temporary commission for Korea set up under the 12 December UN resolution as the most opportune time for an attack. Nevertheless, a characteristic of recent invasion threats is the selection of dates after US troops are expected to have withdrawn from Korea when conditions in South Korea are expected to be more propitious and it is believed that invasion threats will continue to be used primarily to intensify the psychological pressure on South Korea.

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CHINA

Decisive political developments in Nanking may occur in the immediate future, as the realization spreads that the Government has lost the battle in Central China and is almost completely stripped of its military resources. CHIANG Kai-shek may withdraw voluntarily in favor of Vice President LI Tsung-jen. It would be more characteristic of him: 1) stubbornly to continue resistance at Nanking to the end, in which case Nationalist leaders probably would try to force him from power, or 2) at the last moment to withdraw to South China without relinquishing his authority, in which case Nationalist leaders who remained at Nanking would be in an unfavorable situation to constitute themselves as a successor government.

Despondency and confusion pervade Nanking military offices as certain military defeat looms nearer and the Chinese public, long fed a diet of "victories" and "strategic withdrawals", must necessarily soon be confronted with the stark fact that shattering reverses were suffered by the Nationalists south of Hsuehou. These reverses will very likely be a defeat from which the Nationalist Army and the Generalissimo will be unable to rally. The position of the encircled Nationalist forces southwest of Hsuehou and west of Suhsien can be regarded as hopeless; their eradication only a matter of a few days. Communist radio claims, that the 12th Army Group and 30 regiments of TU's three army groups have already been "totally annihilated", have been largely substantiated by other reports. Upon the final eradication of these forces, the Pangfou Nationalists are expected to attempt to withdraw south of the Yangtze River, but it is doubtful whether many of these forces can be salvaged for the defense of Nanking, especially in view of the fact that the Communists have already launched movements to encircle these units.

In addition, the Nationalist position in North China is deteriorating rapidly, as the Communists press closer to Peiping. They are now in Chihhsien, about 35 miles to the south, in Shunyi about 30 miles to the northeast, and are active along the Peiping-Kalgan railway. Rail communication between the latter two points is precarious with strong Communist units disposed on both flanks of the line. Although the precise objectives of the Communists, or for that matter of the Nationalists, are somewhat obscure, the Nationalists have apparently ordered the evacuation of Kalgan, but on whose authority is unclear. Officials of the Kailan coal mines state that FU Tso-yi has evacuated Tangshan and the mine area, and that the Communists have occupied them. This leaves Tientsin with only enough coal to operate essential services for 2½ months. Because FU's forces contain a large number of Central Government units, some of whom have openly stated that they will not fight the Communists, FU can have complete faith in only his own Suiyuanese units, or considerably less than half his total strength.

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Early removal of CHIANG Kai-shek from the Government is anticipated by KAN Chieh-hou, political adviser to Vice President LI Tsung-jen. According to KAN, CHIANG has indicated he will retire if no increased US aid is forthcoming and when the Government's troops in East China are defeated. However, if CHIANG is determined to continue in power, KAN reports that PAI Chung-hsi and FU Tso-yi, along with other generals and political leaders, will resort to a coup d'etat in an effort to salvage something. LI Tsung-jen has endeavored to forestall a coup inasmuch as he hopes to assume office legally without resort to force. KAN expects the crisis to be reached in the next week or two, and indicates that LI plans to negotiate with the Communists when he assumes office.

"B"

KAN Chieh-hou is usually considered to be a reliable source and is in a key position to reflect LI Tsung-jen's current views. It is possible that CHIANG may retire when the aforesaid conditions materialize; at the present, however, he appears determined to continue to resist efforts to displace him. On the other hand, while a coup is also possible, it is equally possible that CHIANG will flee from Nanking at the last moment and attempt to establish a government in South China.

Nationalist North China makes political preparations for various eventualities. Due to the National Government's increasing inability to function effectively in the area and to local pressures concerned either with efforts to mobilize resistance to the Communists or as an alternative to negotiate with Communist representatives, a strong movement toward autonomy has developed recently. An important feature is the projected creation of a North China Political Council, similar to that sponsored during the war by the Japanese, which would unify administrative authority over local officials. Such a council, or alternatively several departments under General FU Tso-yi, would facilitate FU's control of the area. FU and other North China leaders may wish to await the political consequences of Nanking's fall in the hope of allying themselves with a reorganized government able either: 1) to continue resistance or 2) to negotiate a peace settlement with the Communists. However, they also face the prospect of having to depend on themselves. Should FU eventually retire into Inner Mongolia, leaders in North China cities would try to unite their meager political resources for a separate settlement with the Communists.

"C"

Chinese Communists intimate special status for Manchuria. The Chinese Communist press in Dairen has hinted that Manchuria will have a status, under Communist control, apart from the rest of China, and may even become, like Outer Mongolia, a Soviet-dominated "People's Republic." The paper announces that elections will be held in Manchuria "before the next spring planting," and that, "after planting, provincial assemblies will be held... Administrative, legislative, and judicial branches of the government are all to be under the jurisdiction of the People's Republic assemblies."

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The Communist press emphasizes that, "under the new democracy," the Party must take a more aggressive role in the government. "Important questions...should be discussed democratically and decided by the Party organization inside the government. The Party...should ensure that its decisions are carried out by the government."

Communists announce unified currency for 'liberated' China and the merger of all Communist banks into the People's Bank of China. The Communist broadcast states that the geographical unification of the 'liberated' areas and the resumption of interprovincial commerce have made necessary a single currency for all of Communist China, excluding Manchuria. The new monetary unit, worth approximately one US cent, will be backed by "grain, cloth, cotton" and other commodities rather than by "gold or silver." The broadcast notes that inflation has reduced the value of Communist currency by 60 times since V-J Day, as compared with a devaluation of 150,000 times in Nationalist currency.

The specific exclusion of Manchuria, on the pretext of poor communications, is another indication that Manchuria, an area economically far more stable than the rest of China, will have special status. Currency and banking unification, in China Proper, will certainly facilitate political power of the Communists, but its stability will be doubtful at least until such time as the Communists control and operate the entire economy of China.

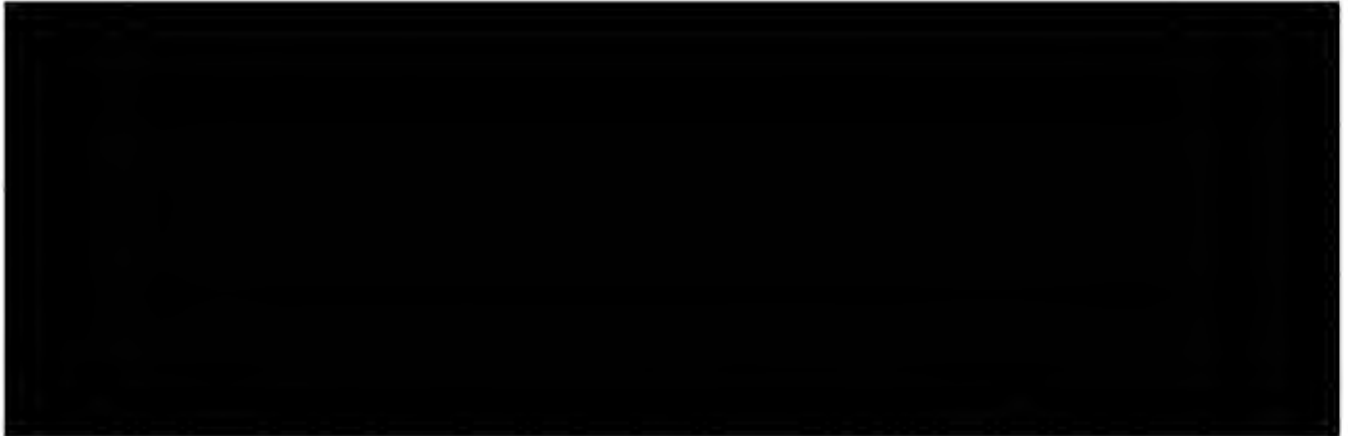
Current Economic Developments: The Chinese Government's sales of gold and silver not only have failed to halt inflation, but have touched off another "buying spree" which pushed prices up in Shanghai. Open market prices of gold and silver are well above official prices and the US dollar reportedly rose to over GY \$60 on 13 December. Furthermore, the convertibility policy is rapidly depleting the Nationalists' specie reserve and will shortly have to be abandoned or greatly revised.

Industrial stagnation is affecting both Shanghai and Tientsin, and hundreds of factories in both cities are reported closed, chiefly due to the shortage of raw materials and power. Tientsin, especially, is now almost completely blockaded by the Communists. While the fall of Tangshan, market terminal for the Kailan coal mines, now eliminates Tientsin's coal supply, Shanghai has not received large Kailan coal shipments since September but has been increasingly dependent on Taiwan (Formosa) for its inadequate coal imports. However, Taiwan is an uncertain coal source since reserves are poor and limited. There is almost no coal conveniently available elsewhere in the Far East, and plans to import coal from the US would require months to complete, besides being exorbitantly expensive.

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Admiral BADGEF's public statement regarding possible landing of US Marines in Shanghai may have consequences unfavorable to US interests. Reports indicate that Chinese as well as foreign residents now anticipate a large measure of protection for themselves and that interested Chinese groups may be impelled to provoke incidents calculated to bring about or prolong assumption of protective functions by the Marines. Moreover, the statement has been the subject of pointed inquiries by French and Soviet representatives who apparently are much concerned over US intentions. The USSR, therefore, may decide to land its Soviet forces in Shanghai, ostensibly to protect its property and its 5,000 quasi-genuine Soviet citizens in Shanghai, but also to remove from Shanghai a number of Soviet and stateless Russians who have incurred the displeasure of the Soviet authorities.

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INDONESIA

Republican countermoves against the Dutch. The Republic of Indonesia "A" is now attempting to muster external and internal support in order to strengthen its own political position if the Dutch establish an interim government for Indonesia composed of non-Republican states and if they institute "police action." Republican officials are counting on receiving aid from India, Pakistan, Burma, Malaya, Australia and New Zealand. If the Dutch eventually use force in restoring law and order in Indonesia, the Republican Government claims that they will operate as a government-in-exile from India. Arrangements with India are reported to include Indian action in the event of war, which would deny the Dutch air landing rights in India as well as an embargo on shipping.

In Indonesia the Republic has intensified its efforts to win the support of non-Republican nationalists. The formation of a Greater Indonesia Union (PIR) on 10 December indicates a major effort in this direction since the new group includes individuals prominent in Dutch-sponsored states. It is extremely likely that, even if the Dutch succeed in setting up an interim government without the Republic, Republican political forces will eventually assume a dominate position in the new government.

BURMA

Press campaign fans Karen-Burman animosities. Karen-Burman animosity "B" is being intensified by insinuations in the Burmese press that the British, and possibly Americans, are clandestinely arming the Karens. Many high Government officials are implicated in this latest development, and some have openly made statements warning against racial strife and referring darkly to the "stooges of the imperialists" who would incite minorities against the Government. Strong denials of intervention and requests for explanations by the British Embassy and the Karens have had no results. Meanwhile, Burmans are becoming increasingly uneasy because of rumors of impending Karen assaults on Pangoon, Moulmein and Toungoo. The situation continues highly explosive, and if communal violence develops, it will be extremely ferocious and destructive. Burma's economy, largely based on rice production, would receive another severe blow because Karens and Burmans are highly intermingled in the best rice lands of Lower Burma. Furthermore, the communists, who already have attempted to exploit racial antipathies, may be expected to take full advantage of any Karen-Burman conflict. The greatly increased hardships which would ensue, as well as the emergence of a communist China, might enable the Burmese Communists to rise to a dominant position in Burma's politics.

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MALAYA

Terrorists reported slashing rubber trees. Small bands of terrorists "B" in Malaya are reported to have begun slashing rubber trees, the effect of which is to put the trees out of production for a period of years. This development may be an indication of British success in preventing terrorists from operating in relatively large groups. On the other hand, it may be merely an easy method by which the terrorists can decrease Malaya's rubber production. In any case, the prevention of this practice will be an exceedingly difficult undertaking for the British.

PHILIPPINES

Government claims Constabulary has broken Huk resistance in central Luzon. "B" Recent releases from Interior Secretary Baluyut and President Quirino's office announced that the Philippine Constabulary (PC) drive, which began after amnesty for the Huks expired in August, has broken Huk resistance in Central Luzon. According to the US Military Attache in Manila, both the Interior Secretary and his Constabulary authorities are in apparent agreement that the Huks are now sufficiently suppressed to warrant reducing PC operations to patrolling. (The Constabulary has recently encountered no Huk bands larger than 50.) As further evidence of the Government's confidence, President Quirino announced 11 December that PC Chief Brig. Gen. Mariano Castaneda, who has served with the Constabulary for 33 years and actively directed anti-Huk operations, has been appointed Chief of Staff of the Armed Forces. Col. Alberto Ramos, Deputy Chief of Constabulary, who is said to be more conciliatory toward the Huks, will probably assume the top PC post.

It is believed that considerable progress has actually been made toward suppressing the Huks and that the change in PC tactics has a reasonable chance of success. Nevertheless, none of the top Huk commanders are known to have been killed or captured and it is possible that the Huks may be able to infiltrate and regroup in Central Luzon. Moreover, the Constabulary is still faced with the task of mopping up Huk remnants who have fled to Laguna and Quezon provinces in southwestern Luzon. No estimates of the number of Huks in these provinces are available although 8 PC companies totaling about 1,000 men are reportedly stationed in the region.


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